

**MINUTES OF
CITY OF LAS VEGAS AUDIT OVERSIGHT COMMITTEE
City Hall - 8th Floor Conference Room
400 Stewart Avenue
Las Vegas, Nevada
City of Las Vegas Internet Address: <http://www.ci.las-vegas.nv.us>**

**April 22, 2003
10:00 a.m.**

CALL TO ORDER: Chairman Kern called the meeting to order at 10:02 a.m. and announced that the Open Meeting Law had been met.

ATTENDANCE:

Present: Chairman Michael Kern
Mayor Oscar Goodman
Councilman Larry Brown (arrived 10:12 a.m.)
Member Paul Workman
Member Jose Troncoso
Steve Houchens, Deputy City Manager
Brad Jerbic, City Attorney
Radford Snelding, City Auditor
Philip Cheng, Senior Internal Auditor
Bryan Smith, Internal Auditor
Bill Cimo, Internal Auditor
Gary L. Phillips, Internal Auditor
Bonnie Mocek, Management Analyst I
Larry Haugsness, Director of Field Operations
John Black, Manager of Parks & Open Spaces
Michael Sheldon, Director of Detention and Enforcement
Mark Vincent, Director of Finance & Business Services
Susan Maini, Department of Finance & Business Services
Keith Davis, Department of Finance & Business Services
Michael Olson, Treasury Division, Finance & Business Services
Dee Wisor, Bond Counsel
Claudette Enus, Director of Human Resources
Roy Nelson, Manager, Leisure Services Administration
Barbara Jo (Roni) Ronemus, City Clerk
Assistant Deputy City Clerk Vicky Darling

BUSINESS

1. Approval of the Final Minutes by reference of the Audit Oversight Committee Meeting of September 17, 2002

WORKMAN - Motion to approve – GOODMAN seconded the motion - UNANIMOUS with BROWN excused

(10:02)

2. Discussion and possible action on Scheduled Meeting Dates: Tuesday, July 15, 2003 and Tuesday, October 21, 2003

Mayor Goodman confirmed with City Clerk Ronemus that the proposed dates had been checked so there would be no conflict with calendared holidays.

GOODMAN - Motion to approve – WORKMAN seconded the motion - UNANIMOUS with BROWN excused

(10:04 – 10:05)

1-66

3. General Report by the City Auditor

Mr. Snelding indicated that Gary Phillips is lead auditor on the Metropolitan Police Department audit in the field work stage and on the Office of Business Development audit in the final scoping phase. The entire staff is involved in the annual follow-up, having completed the field work and working on the reporting phase. The Northwest Leisure Service Center audit requested by City Council is in the scoping portion under the direction of Philip Cheng. Both Bryan Smith and Gary Phillips are leading the field work in the cash counts audit.

With regard to the September 17, 2002, meeting, Mr. Snelding explained that he made a comment which he wished to clarify. While he said that the Court situation had improved with the controls imposed and after relocation, at which time the two operations will be separated, the theft could not occur, this was misleading. Controls can deter theft, but cannot guarantee it will not occur. A collusion of key employees can defeat even the best internal controls. He stated that the more correct comment would be that a theft is unlikely with appropriate preventative controls and would quickly be identified with appropriate detective controls.

The capital projects audit was suspended as a result of a Public Works contract with a consultant. The consultant's study substantially addressed the issues identified by his office. The three remaining issues are not significant enough to initiate a project and will be held as an audit need to be addressed in a future audit. When the City enters into audits where recommendations have been made in a consultant's study, the auditors will follow up on those recommendations.

Mr. Snelding outlined the random and surprise audit of change and petty cash funds. A report will be issued that is anticipated to improve performance in this area. In addition, unusual transactions or circumstances are being identified utilizing software and the City's database. Once an anomaly is identified, the circumstances are investigated to determine if there is a satisfactory explanation. As an example, the first test was to identify current employees who do not live within the State of Nevada. It is anticipated that about a hundred of these types of tests will be added in the future.

Finally, staff is investigating software that will aid in looking for unauthorized software, pictures, music files, etc. on City computers. Fines related to unauthorized software, pictures, music, etc. can amount to many thousands of dollars. Once such software is obtained, the City will randomly and on a surprise basis audit microcomputers at the City.

Chairman Kern asked whether consultants have access to audit reports during their work. Mr. Snelding responded that the audit in question was still in the scoping phase. The consultant study was independent and then staff made a comparison. Chairman Kern discussed with Deputy City Manager Houchens and Mr. Snelding the benefit to the City of consultants having access to audit reports. Mr. Snelding stressed that audit reports are available on-line and consultants may have accessed those without his office's knowledge. Chairman Kern complimented staff on identifying issues and management for their response and follow-up. There is obviously a team effort at the City.

Member Workman confirmed with Mr. Snelding that there is a policy regarding inappropriate software use or abuse. Mr. Cimo indicated that there have been fines levied against other jurisdictions and fines can be imposed up to \$100,000 per incident. It is possible that disgruntled employees could place something on a computer and then, after leaving the City, report it in order to create an incident for the City.

There was no further discussion.

(10:05 – 10:13)

1-89

4. Discussion and possible action on Draft Fraud Policy

Mr. Snelding advised that the Draft Fraud Policy as presented is the result of a collaborative effort with the City Manager, City Attorney, Director of Human Resources, Director of Detention and Enforcement, Director of Finance and Business Services, Director of Information Technologies and City Auditor. It represents a significant step in systematically addressing any violations of integrity at the City.

The policy delineates discipline for employees or contractors that commit fraud against the City. It also holds managers and other employees accountable who are aware of fraud and fail or refuse to exercise appropriate action. The policy also addresses retaliation and preserves the right of prosecution and restitution for the City.

The policy establishes a protocol to report and investigate suspected fraud. A Control/Review Committee is created to assign investigative resources and review the results of investigations. It establishes that at least annually a report should be prepared outlining the results of investigations and the disposition of allegations received.

The City Council has given the City Manager the latitude to implement policies; therefore, no action is required on the part of the Committee or the City Council. The City Manager has stated he will implement this policy.

Mayor Goodman discussed with Mr. Snelding the use of Nevada Revised Statutes (NRS) 205 as the basis for the definition of fraud. It is anticipated that fraud allegations may be brought forward by reporting, an audit finding for irreconcilable accounting or by some other manner. The Marshal's Unit would accumulate, prepare and pass the information to the established Control/Review Committee, consisting of the City Attorney, City Auditor and City Manager. If a finding of possible fraud were made, it would be referred back to the Marshal's Unit for investigation. To date, the stated methodology has not been closely followed.

Mayor Goodman questioned City Attorney Jerbic regarding subpoena powers and immunity conferences. City Attorney Jerbic responded that this is an investigative tool. The Committee would review the initial complaint and, if appropriate, refer for investigation. Nothing in this policy forces an employee to waive his/her right to not incriminate themselves or waive any representation rights under the contract of any bargaining unit. Existing personnel policies and procedures require staff members to disclose routine and necessary information to their supervisors. This policy expands that to make it an obligation for an individual to disclose fraud which they are aware is being committed by another person. Failure to do so could result in disciplinary action or even criminal prosecution of the non-reporting individual. The administrative responsibility of a manager is absolute versus criminal liability. Criminal liability would need to be determined by law enforcement, not by the City Auditor or Control/Review Committee.

City Attorney Jerbic added that nothing in the policy changes existing law. This is merely a devise to investigate and to let everyone know what their responsibilities are, how to report and provide an organized procedure for discovering whether or not there is fraud. After that, it would be investigated by appropriate law enforcement utilizing all existing law. Mr. Snelding advised that the fraud policy would be distributed by the City Manager's office. During the drafting process, staff reviewed the proposals with the various bargaining units.

Member Troncoso confirmed that Mr. Sheldon will receive sufficient funding and training for his Department to handle the investigation discussed. City Attorney Jerbic answered that the Marshals already do considerable investigation for the City and Mr. Sheldon has people who are specialists in the area.

Chairman Kern and City Attorney Jerbic discussed that the formality and detail of this policy is greater than that seen before, but it is not a legal document. This policy puts everyone on the same page, using the same terminology. Chairman Kern explained that his concern is that overly broad terms can create openings for people to use to their advantage.

Chairman Kern expressed concern with the privacy and confidentiality of allegations. City Attorney Jerbic replied that the public record law provides confidentiality of personnel matters so long as an allegation remains administrative. That is why the Committee

would meet confidentially. Many times an allegation is found to be without merit and an employee is never approached. Certainly it is anticipated that if an employee were approached, he/she would have the right to speak before the Committee and confront the accuser, as well as exercise the Fifth Amendment if the fact pattern becomes serious enough.

Mr. Snelding summarized his history running a fraud hotline. The retaliatory or false reports are determined very early in the confidential investigation. False allegations die very quickly without the information ever getting out. An annual report accounting for the allegations, investigations and findings assures the elected officials that everything is addressed and nothing falls into the cracks. Mr. Sheldon added that the policy is so employees understand the expectation of management, employee responsibility and accountability and the procedure of an investigation. The investigative process is to establish a finding of fact. While the matter remains administrative, the adjudication is up to the Department. If criminal conduct is identified and referred for prosecution, there is no way for the matter to remain confidential.

City Attorney Jerbic directed the Committee's attention to Pages 2 of 7 regarding establishing fraud, the rights of someone accused and protection against false accusation. The Committee is obligated to protect the City at the same time it protects the accuser and accused. The details as to what goes on within the Committee were left vague because that will depend on the facts.

Mayor Goodman confirmed with City Attorney Jerbic that while a paper trail may be established, it is not discoverable by the media during the pending investigation pursuant to existing interpretations of the open records law. Releasing information would compromise the investigation. There has been no determination as to after conclusion of the investigation, but the City's position is that personnel matters remain confidential. That position could be challenged.

There was no further discussion.

WORKMAN - Motion to approve the policy – GOODMAN seconded the motion - UNANIMOUS

(10:13 – 10:34)
1-368

5. Discussion and possible action on Audit of Parks and Open Spaces Report CAO 1701-0203-03

Mr. Smith outlined an audit of Parks and Open Spaces, a division of the Department of Field Operations. The Division has 111 positions and oversees the maintenance of approximately 1,483 acres, including parks, City facilities, medians and school sites. The audit focus was on issues directly related to Parks and Open Spaces. Various issues relating to City parks and other City departments impacting Parks and Open Spaces

were also addressed. The majority of the findings can be classified into three different areas: park security, security of facilities and equipment and operational issues.

Parks and Open Spaces personnel oversee vandalism and graffiti repairs at City parks. Over 100 hours per month is spent repairing vandalism and approximately 147 hours per month is spent removing graffiti from City park facilities. There is a misconception that the City still has park police or rangers dedicated to park security. Security at City parks is overseen by the City Marshal's Office. There are no longer park rangers entirely dedicated to security at parks. The City Marshal's Office is very limited as there are only 3-4 officers available per shift for patrol of City facilities (including parks) outside of the downtown area. In a Leisure Services survey conducted in late 2001, 72% of the people surveyed believed there was a significant need for increased park police visibility. Considering the impact of park security on the workload for Parks and Open Spaces and the safety of the public, staff recommends that the City Manager and Detention and Enforcement take the following steps:

1. Evaluate the adequacy of the coverage of the City parks by the City Marshal's Office.
2. Evaluate what additional security measures could be implemented at City parks.
3. Create a formal City park security plan.
4. Improve signage informing the public how to report vandalism and graffiti.

The City Manager's Office and Detention and Enforcement Department concurred with the recommendations and the City Manager's Office has stated that they will establish a task force to address the issues contained within the report.

The second area of concern was with security of facilities and equipment. Various security weaknesses were noted, including open access to the East Service Yard after work hours and open access to the modular building at the Satellite Yard in which vehicle keys and City radios are located. In fact, the chain link fence was found to be damaged at the Satellite Yard. During surprise late night visits to the service yards utilized by Parks, unlocked vehicles with City access badges and radios inside were identified and one vehicle had the keys left in the ignition. The recommendation is that Parks and Open Spaces management, in conjunction with Facilities Management and Detention and Enforcement, evaluate and address the noted security issues and more fully document its security policies.

As reflected in their response to the report, Parks has already taken various measures to address the security concerns noted, including the construction of a new entrance and gate to the East Service Yard which has now been completed.

Multiple thefts occurred at the Service Yards over the past two years and unsecured tools and supplies were identified during after-hour visits to the East Service Yard. There is no formal maintenance tools and supplies tracking system. At a minimum, a formal tracking system for higher cost maintenance tools and supplies should be established to improve the security of City assets and accountability by City employees. Parks management has

stated that they will implement procedures to track tools and equipment with a value over \$1,000.

Various operational issues were also noted. The Architectural Services Division of Public Works oversees the design and building of City parks and establishment of City design standards. Input by Parks and Open Spaces on standards and designs is especially important because of their role in maintaining these parks after construction. Parks and Open Spaces management needs to more timely review design standards and park designs, keeping better records of input to ensure such input is adequately addressed. Parks management will be working with Architectural Services to develop a system to ensure that their review comments on designs and standards are submitted timely and remain on file.

Leisure Services oversees public reservations of facilities such as picnic shelters and recreational venues. Parks and Open Spaces cleans reserved spaces prior to use. A need for a comprehensive listing of all reservable park venues/areas was identified and should be made available to the public. Reservable areas need to be more clearly identified with signs and the location and phone number for making reservations provided. Reservation fees and damage deposit amounts need to be evaluated as it relates to the actual cost to ensure adequacy. Proper cleaning guidelines are needed to ensure that the public is aware of their responsibilities following use in order to avoid loss of a damage deposit.

There are some minor disagreements with the recommendations by Leisure Services, especially with regard to reservable area listings and the policy regarding non-reservable areas of parks. Despite these differences, Leisure Services and Parks management have stated that these issues will be evaluated in making changes.

City parks are most heavily used during the weekends, but Parks only has four staff assigned to the weekend shift. Weekday staff who are willing to work overtime must continually be identified by management to work weekends to supplement as needed. There can be as many as 12-15 staff needed on busier weekends. The focus of weekend work is cleaning reserved areas rather than repeated cleaning of parks such as trash pickup and cleaning of restrooms. Typically there is only one visit per day by staff to a park on the weekends. It is recommended that Parks and Open Spaces evaluate alternative measures to increase the effectiveness of weekend operations. This could include outsourcing general cleaning functions and/or less concentrated effort on preparation of reserved areas and more time on repeated cleanings of the parks. Parks management has stated that they will explore alternatives to address this area.

Other operational issues identified included the need for a divisional standard operations manual, a formal log of complaints and their disposition, formal guidelines regarding property damage to be reported to Insurance Services, and improvements in how the Division addresses safety issues and training. Management has agreed to address these issues.

Member Workman verified with Mr. Smith that Metro covers the parks during the gap in Marshal coverage. In addition, Mr. Sheldon noted that the City works with Metro daily and Metro responds as they are able. The City is working to install cameras in high-profile areas, such as the skate parks, after seeing a significantly positive impact in JC Park after camera installation there. Mayor Goodman expressed dismay that the taxpayer dollars are wasted in this manner. It would seem that more could and should be done to catch those responsible. He discussed with Mr. Sheldon that the cameras are cost effective in the long run and that the City also utilizes the park ambassador program as eyes and ears in the parks as well. The ambassadors are trained and utilize a check list. Mr. Smith suggested that the ambassador program be expanded. Mayor Goodman concurred and directed that Leisure Services explore the possibility and report to the Council in that regard.

Member Workman outlined a sting conducted by Metro some time ago where they advertised doing a movie and invited taggers to submit their art work. Once the taggers were all gathered together for the audition, Metro arrested them. It may be time to conduct another such sting. Mayor Goodman indicated that other jurisdictions allow taggers to tag allotted space as art work and such a program might be explored by the City. Councilman Brown stated that the list of ambassadors and the hours they serve has expanded significantly over the last few months. The aggressive efforts of the City in building parks and skate park elements removes youth from malls and other gathering points, but it also provides access at all hours.

Chairman Kern and Mr. Smith reviewed the clean up and damage procedure and the possible loss of deposits based on a user failing to meet clean up standards. A suggestion has been made that the Parks staff have input on when deposits should and should not be returned. Special event rates are based on an hourly structure while reservable space is a flat fee. Mr. Nelson stated that the fee structure has existed for some time and it is being evaluated to bring it into line with other municipalities. Mr. Smith encouraged that the time and cost in maintaining the reservable spaces should be included in such an evaluation. Perhaps some of the responsibility for the site should be placed on the user.

Councilman Brown questioned the demand for servicing programmable space versus reservable space. Mr. Haugsness outlined staff's intent to use volunteers doing community service to pay off fines. Once a reliable workforce of at least 12 individuals is identified, this could be a very effective alternative. Potentially this could be an unlimited resource. It has certainly been very effective and beneficial downtown, with an average workforce of 20 individuals per night. Member Troncoso confirmed with Mr. Sheldon that there are very strict standards on anyone who may participate in this type of program, to ensure the safety of the public. Councilman Brown suggested a fee or policy to assign the policing and clean up responsibility back to the end user, of both programmable and reservable space. Mr. Smith added that an education and involvement campaign might help get the public to take more responsibility. Mr. Black noted that staff is also looking to

expand park use permits to require policing and picking up an assigned space. A deposit may be required and refunded depending on their performance. Staff is hoping to have the expanded park use permit policy in place in time for the next season that starts in the Fall.

Chairman Kern stated that while he commended staff for tracking large dollar items, it is frequently the smaller cost items which add up to an overwhelming total. It may be easier to track large dollar items, but even smaller items can be tracked as they must be replaced. The proper controls can save the City tremendous amounts of money.

There was no further discussion.

GOODMAN – Motion to accept the report – WORKMAN seconded the motion - UNANIMOUS

(10:34 – 11:00)
1-1034

6. Discussion and possible action on Audit of Special Improvement Districts Administration
CAO 602-0203-04

Mr. Snelding advised that ANG, the contractor overseeing the special improvement district was not included in this audit. The audit concentrated on the City's management of the contracts and controls, but did not include the contractor's services or the upfront activity of other contributing departments.

Mr. Cheng summarized that special improvement districts (SIDs) are created to fund public improvements such as utilities, roads, and sidewalks within each district, usually at the request of a developer. The City has approximately 20,000 parcels with a total improvement assessment value of over \$180 million. Individual property owners are responsible for paying semi-annual installments to service the related debt for the 20-year municipal bond. SID billing and collection are outsourced to contractors.

Various deficiencies were identified during a review of the existing contract with the City's billing service contractor. These included a lack of supporting documentation for the original request for proposal (RFP), a lack of involvement by Purchasing in the RFP or evaluation of contractor, a lack of involvement by Information Technologies (IT) in determining IT requirements for disaster recovery and maintaining data, lack of contractor roles and responsibilities and a lack of performance standards and penalties for not meeting required standards.

There is a need for improved coordination between City departments/divisions on SID issues and more clearly defined assignments of SID roles and responsibilities, particularly with regard to the Treasurer's Office, the City Attorney's Office and City Clerk's Office. The Treasurer's Office needs to more closely monitor monthly invoices and do independent verification of the accuracy and timeliness of the parcel billings.

While some NRS regulations related to SIDs are specific, others are not clearly defined. Over the past nine years, the Treasurer's Office, in conjunction with bond counsel and the billing contractor, have developed various policies and procedures. Many of the current practices have not been formally documented or defined.

There is a policy disagreement between the City Auditor's Office and management regarding first delinquent payment notices to property owners. These notices are being sent after the due date but before the end of the grace period. Approximately one-third of payments on delinquent accounts are received prior to the end of the grace period and late payment penalties initially posted to these accounts are subsequently waived. The City Auditor's Office would recommend that delinquent billing notices not be sent until after the respective grace period has expired. The recommendations of this audit are that improved policies and procedures are needed relating to fee waivers, foreclosure sales, and certificate redemptions, establish an SID processing contingency plan and address the need for more timely reconciliation of certain SID accounts.

Mr. Vincent responded that the nominal cost of the billing notice was offset by the enhanced customer service and that receipt of the delinquent payments prior to expiration of the grace period provides the City with the necessary revenue to service the bond debt in a timely manner. The penalty imposed for delinquent payments is 2% of the total balance due. The delay in recording of property sales has resulted in a lack of proper property ownership and address information. This added customer service of approximately 1,000 notices per year is well worth the small cost incurred in postage and supplies. This added process has enabled staff to get the 20% delinquency down to just 10 delinquents on a non-developer SID. For example, he cited an instance where a \$200 penalty would have been added to a \$250 payment for each delinquent property owner. Mr. Vincent advised the Committee that these are not City backed bonds and the only protection investors have is the assessment against the parcel. It is critical that the payments are collected timely and the debt serviced in order for the City's bonds to remain marketable.

Chairman Kern asked about the recurrence of delinquency. Ms. Maini responded that some property owners are delinquent more often than others. Mr. Vincent pointed out that even without the delinquent notice, anyone paying prior to the end of the grace period would be entitled to have the penalty waived. Once a payment is more than 60 days delinquent, the City may initiate foreclosure whereby the certificate of sale is sold to an investor who will then collect the debt, accrued penalties to date and a 1% interest rate per month for a two year period on improved property and 120 days on unimproved property. If the certificate is not redeemed, the deed is signed off by the City. This process has only been completed three times in nine years. That is a remarkable statistic. The foreclosure process following the 60-day delinquent period is mandated and governed by NRS.

Chairman Kern indicated that as a property owner, he would appreciate the courtesy notice. Deputy City Manager Houchens explained that the audit caused the procedure to

be reviewed, but the customer service is well justified and he would recommend continuing with it. Mayor Goodman concurred. Politically, the Bonanza Village SID is an example of the emotionality of this type of issue. Mr. Vincent added that most people do not understand the impact of an SID or failure to make the payment. There is rarely disclosure by realtors and it is well worth it for the City to make sure there is full communication. Generally speaking, SIDs involve residential property.

Chairman Kern pointed to the delinquency as reportable to the Internal Revenue Service. Mr. Vincent responded that this is not the only fee or fine able to be waived and research will be done on reportable transactions as a forgiven debt. Chairman Kern verified that when a property owner pays the delinquent payment and penalty within the grace period, it is the property owner's choice whether the penalty amount is refunded or applied to the next installment.

Mr. Vincent expressed appreciation to everyone involved in this audit. It is a very difficult, technical situation with many legal issues involved. He concurred with all the recommendations other than the one discussed. Chairman Kern pointed out that the first recommendation regarding contract control elements was not addressed by management. Mr. Vincent indicated that the controls are to be built into the RFP so that contractors will be put on notice up front as to those controls. Mr. Snelding advised the Committee that based on the input at this meeting, the recommendation regarding the delinquent billing notices will be deleted from the follow up.

Chairman Kern requested an explanation of the recommendation for a legal opinion on the certificate of redemption. Mr. Vincent stated that staff has worked closely with bond counsel in order to be in compliance with the law, but there has been no need to formalize the communications into policy. Mr. Wisor clarified that a written opinion upon which investors rely is rendered with every bond issuance process. Verbal advice has been given on collection and other issues which may not have been reduced to writing, but he would stand behind those opinions. Mr. Vincent noted that formality is not always necessary since every step is revisited with every bond issuance.

Chairman Kern complimented the cooperation between Management, the City Auditor and the Departments. He expressed a concern and encouraged greater control and oversight of the contractor, especially given the volume of dollars being collected on behalf of the City. Mr. Vincent answered that the steps taken in response to recommendations from the audit on professional services contracts addressed this concern. Mr. Cheng reminded the Committee that SIDs within the City have increased over nine years by almost ten times. It is time to go back out for a new contract. Mr. Vincent added that the service was new when originally contracted and the City led the SID process in the State of Nevada. The contractor's services are very unique and it will not be surprising if there is only one response to an RFP.

Chairman Kern expressed surprise that the outside auditor did not question the City's relationship with this contractor. Mr. Vincent assured the Committee that all audit reports

are made available to the outside auditor and they are available on the website as well. He could not speak to why they did not do any review or test of transactions. The contractor does not actually handle the cash controlled, but there are still valid reconciliation issues.

There was no further discussion.

GOODMAN - Motion to accept the report subject to deleting the recommendation that delinquent billings be eliminated prior to expiration of the grace period – WORKMAN seconded the motion - UNANIMOUS

(11:00 – 11:29)

1-2039

7. Discussion and possible action on Audit of Insurance Services – Employee Benefits
CAO-502-0203-05

Mr. Cimo reported that Insurance Services is a division in the Department of Human Resources with three operational units: Employee Benefits, Safety/Liability/ADA, and Worker's Compensation. This audit focused on the Employee Benefits unit of Insurance Services and did not audit the other aspects of the Division. Insurance Services staff, consisting of a manager, a benefits analyst and two benefits specialists, was responsible for managing \$10.9 million in claims in 2001. A separate claims audit was conducted by an outside consultant hired by Human Resources.

It was identified that the City's Group Insurance Fund (an Internal Service Fund) is used to account for monies collected from City departments and employees to be paid out on claims for medical, dental and vision services provided to employees and their dependents. The Fund had a positive unreserved fund balance, but does not have a formal fund balance reserve. Prior to 2003, actuaries employed by the Plan Administrator established the health insurance premiums. Insurance Services hired an independent actuary to establish premiums for 2003. Neither Insurance Services nor Finance have requested that the actuaries include the building of a formal reserve within their calculations. The recommendations included that Finance should adopt a formal fund balance reserve for the Group Insurance Fund and Insurance Services should annually hire an independent certified actuary. The independent actuary should establish employer and employee health insurance premiums adequate to cover medical costs and determine an appropriate fund balance reserve for the Group Insurance Fund and a premium component for building the recommended fund balance reserve.

Mr. Cimo summarized the contract language with various bargaining units which provides for the City's self-funded health insurance plan being obliged to pay 100% of health, dental, and vision insurance coverage for each employee and 50% of the actual cost of dependent insurance coverage costs. Since the contract was entered into, the way of doing business has changed. Either the contract language needs to be revised to reflect the change regarding dependent coverage or the practice needs to change. Mr.

Snelding confirmed with Ms. Enus that there have been preliminary discussions with the LVCEA, who has expressed a willingness to execute a memorandum of understanding regarding the contract language.

Health costs continue to increase for the City. Health insurance plan components should continually be reviewed to ensure that cost-benefit of the service makes good financial sense for the City and the employee. Insurance expenses can be reduced through contract terms that give the insured incentives to avoid and limit expenses. The City can also provide limited incentives to encourage living a healthier lifestyle or limiting employee usage of medical services. Consumer-driven health care such as a Health Maintenance Organization can be used to continue to provide quality health care to employees while significantly reducing the City's financial exposure. Insurance Services must be innovative to manage costs and evaluate other options which may allow the City to identify costs in advance.

Mr. Cimo pointed out that there are privacy aspects involved with Health Insurance Portability and Accountability Act (HIPAA). Nonfederal governmental employers that sponsor a self-funded group health plan can exempt themselves from some HIPAA provisions. They can place limitations on preexisting condition exclusion periods, establish special enrollment periods or select who can participate in the health plan based on medical history. It is a controversial alternative, but he referred the Committee to a slide identifying five other government entities utilizing the HIPAA alternative. The recommendation is that the City Manager's Office in conjunction with Human Resources Management should evaluate and document the benefits of opting out of Title I of HIPAA. Ultimately this is a financial consideration that could cause high-quality employees to choose another employer.

The audit reflected problems with the third-party administrator. There were compliance issues with the previous administrator for which penalties accrued, but were not collected. The exact situation was not adequately documented. In fact, an independent auditor hired by Human Resources determined that a definitive audit could not be done because of a lack of documentation. New standards are being created, particularly to identify red flags that will allow staff to more closely monitor, identify and investigate those areas which are red flagged. Mr. Snelding stressed that changing third-party administrators was an excellent step. His office would encourage Insurance Services to more closely monitor the new administrator. Chairman Kern confirmed with Mr. Cimo that the industry standard was not being complied with by either the administrator or by the City. Such standards are being established for the City under which they will more closely monitor the administrator. Chairman Kern stated he would provide the City with a copy of an article regarding standards and tracking. Mr. Snelding outlined the loss of flexibility that existed prior to HIPAA.

Mr. Cimo added that the \$8,000 spent on the independent audit recovered over \$28,000 and was an excellent method to address other areas of concern. Those standards will include looking at the check register, availability of the plan document, monitoring the life

insurance plan and then creating and keeping updated policies and procedures. There are improvements to be made, but this step in the right direction is one that many other area jurisdictions have not taken.

Member Workman checked with Mr. Cimo that the 15% administrative fee should be sought from the former administrator for past failures to comply. Ms. Enus explained that at the time the City transferred to a new administrator, the past administrator was in disarray and closing business in the Southern Nevada area. The City has not pursued any other penalties in an effort to simply cut the losses and transfer to a provider to obtain the necessary services. It is doubtful that the previous administrator has been advised in any way that the City is seeking additional penalties. At the time the contract was terminated, it was done with the assistance of the City Attorney's office. Her Department will explore pursuing the penalties.

Mr. Cimo detailed for Chairman Kern that the establishment of policies and procedures, with the assistance of the external auditor, would allow the small staff to identify the red flags. Ms. Enus agreed that McClellan, the external auditor, is assisting in designing those standards consistent with the industry that will enable staff to monitor the current administrator.

There was no further discussion.

BROWN - Motion to accept the report – TRONCOSO seconded the motion – UNANIMOUS

(11:29 – 11:47)
1-3480/2-1

CITIZENS PARTICIPATION:

None

(11:47)
2-453

Chairman Kern introduced Jose Troncoso, newly appointed to the Committee and attending his first meeting. Member Troncoso expressed that it was an honor to sit on this board and gave a brief biographical sketch. He moved to Las Vegas when he was six-months old in 1952. After college, he joined the North Las Vegas Police Department in 1974 and left as Chief of Police after being appointed as a United States Marshal by Senator Harry Reid and the President. After 16 years as a United States Marshal, he was offered a position with Station Casinos. He is now the Vice President of Corporate Security, in charge of the eleven Station Casino properties.

Mayor Goodman expressed the privilege the Council feels it to be to have Member Troncoso, Member Workman and Chairman Kern assisting the City with the Audit Oversight Committee.

(10:03 – 10:04)

ADJOURNMENT:

The meeting adjourned at 11:47 a.m. (2-457)

RESPECTFULLY SUBMITTED,

Vicky Darling, Assistant Deputy City Clerk